

December 23, 2002

**Confirmation Letter for: CPN/PG&E/DWR – Unit-Firm Renewable Product
Geysers Unit 13 (GEYS13 7 Unit 13)**

When fully executed, this letter (this “Confirmation”) confirms the agreement by Calpine Energy Services, L.P. (“Seller”), to provide to the California Department of Water Resources with respect to the Electric Power Fund separate and apart from its powers and responsibilities with respect to the State Water Resources Development System (“DWR”), the “Buyer,” the right to dispatch the unit identified below for all electrical products as specified herein. Pacific Gas and Electric Company (“PG&E”) has also entered into an EEI Master Power Purchase and Sale Agreement and confirmation (the “PG&E Agreement”) with respect to the right to dispatch such unit for all such electrical products.

“Master Agreement” means the Master Power Purchase & Sale Agreement, Version 2.1 (modified 4/25/00), including the Cover Sheet and exhibits thereto, prepared by the Edison Electric Institute and the National Energy Marketers Association, and entered into by Seller and Buyer, dated as of December 23, 2002, as modified by the applicable Schedule A.

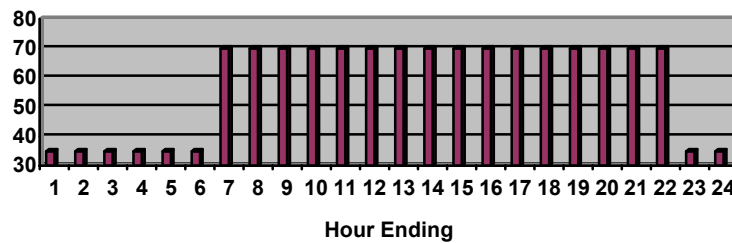
“CAISO” means the California Independent System Operator or any successor entity performing the same function.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Master Agreement.

1. Seller: Calpine Energy Services, L.P. (“Seller”)
2. Buyer: DWR. On the next following Business Day after the date on which PG&E receives a credit rating of at least BBB- or better by S&P and Baa3 or better by Moody's, or on such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, the DWR Agreement shall terminate and be superseded automatically by the PG&E Agreement, PG&E shall automatically supersede DWR as the Buyer under the PG&E Agreement and DWR shall be relieved of all future liability with respect to the transactions set forth in this Agreement and in the PG&E Agreement.
3. Unit:
 - a. Seller shall supply all electrical products under this Confirmation from the following resource(s): Geysers Unit 13 (GEYS13 7 Unit13) (“Unit(s)”). To the extent the Product will be delivered from more than one Unit, all output from such Units must be delivered through a single meter and that meter must be dedicated exclusively to those units described herein. This/these Unit(s) employ(s) the following renewable technology/ies: Geothermal. To be eligible,

- Unit(s) must qualify as an “eligible renewable energy resource” as defined in the new Section 399.12, added to the California Public Utilities Code by SB 1078. All Environmental Attributes associated with generation from the Unit(s) must be provided for an offer to be accepted and shall be conveyed to Buyer as included in the delivery of the Product.
- b. Environmental Attributes shall have the meaning set forth in Attachment A - “Environmental Attributes,” attached hereto and incorporated herein by this reference. Seller represents that Seller holds the rights to all Environmental Attributes associated with the Unit(s), and Seller agrees to convey and hereby conveys all such Environmental Attributes to Buyer as included in the delivery of the Product from the Unit(s).
 - c. To the extent permitted pursuant to new Section 399.15 added to the California Public Utilities Code by SB 1078, Seller agrees to dedicate all output from the Unit certified as “incremental geothermal production” by the California Energy Commission, up to 70 MW in all On-peak Hours (as defined in section 4), and 35 MW in all Off-peak Hours (as defined in section 4), for sale to Buyer on terms set forth in this Confirmation.
 - d. Seller shall comply with all California Energy Commission requirements necessary to demonstrate that the Unit qualifies as an “eligible renewable energy resource,” but shall not be obligated to comply with any California Energy Commission requirements necessary to obtain production incentives or supplemental energy payments.
4. **Product:** The Product is Unit Firm energy having Environmental Attributes, including scheduling rights as provided hereunder, scheduled in accordance with then current CAISO tariffs in a scheduling coordinator to scheduling coordinator transaction. Seller to specify an hourly profile. Seller to provide all energy from the Unit(s) to the extent necessary to meet the hourly profile. The hourly profile for this resource is 70 MW in all On-peak Hours, and 35 MW in all Off-peak Hours. “On-peak Hours” are hour ending 0700 through 2200 on Monday through Saturday, excluding those days designated as holidays by the NERC. “Off-peak Hours” are hour ending 2300, 2400, and 0100 through 0600 on Monday through Saturday, all hours Sundays and those days designated as holidays by the NERC. All ramping shall be in accordance with CAISO tariff ramping requirements.

Geysers Unit 13 Hourly Profile



5. Quantity:

- a. Maximum Capacity: 70 MW.
- b. Seller can specify below additional dispatchability and/or ancillary services it wishes to offer in addition to the hourly profile indicated above. [Seller must list these services here, along with the amounts for each service]: Decremental Energy: up to 15 MW with no less than three hours notice by telephone to Seller's realtime dispatch desk for any whole delivery hour, at an additional payment to seller of \$10/MWh of calculated decremented energy, however, there shall be no decrement payment for up to 500 total hours per calendar year of decremented energy, except that no more than 250 of such free decrement hours per calendar year may be Off-peak Hours. All Off-peak decrements shall be limited to four (4) hour minimum duration blocks. Example: If Buyer notifies Seller to decrease generation 15 MW below the amount provided according to section 12 below, Buyer shall pay for delivered generation in that hour plus an additional payment of \$150 (15 MW * \$10/MWh).
- c. [INTENTIONALLY OMITTED]
- d. Testing: (A) The audit rights under Section 10.9 of the Master Agreement shall include such inspections and testing of meters as is reasonably necessary to confirm their accuracy consistent with CAISO practices and procedures in effect at the time. The Party requesting any such inspections and testing shall bear the cost of the foregoing in the event the meters are accurate within applicable CAISO or successor metering requirements. The other Party shall bear these costs if the meters are not accurate within applicable CAISO or successor metering requirements. (B) In addition, such audit rights shall include inspections and testing as is reasonably necessary to confirm the accuracy of any notice delivered by Seller to Buyer respecting the availability or operation of the Unit(s) within the parameters set forth in section 4. If Buyer requests that a Unit be tested, Seller shall have the right to a prompt retest of such Unit. Seller shall also have the right to request a test of a Unit at any time, and Buyer shall have the right to a prompt retest of such Unit. The Party requesting that a Unit be tested shall bear the costs of such test. (C) Seller hereby consents to Buyer obtaining from the CAISO the CAISO meter data applicable to the Unit(s).
- e. Allowance for Planned Maintenance: 0 days per calendar year.
- f. Forced Outage Allowance: 0 hours per calendar year.
- g. Prolonged Outage: 0 hours per calendar year
- h. Duty of Care: Seller agrees (1) to use the best industry practices in the maintenance and operation of the Unit(s), so that there is not a material change in the operating characteristics of the Unit(s) over the term of this Agreement and (2) to use all commercially reasonable efforts to obtain and maintain all regulatory approvals needed to operate and maintain the Unit(s), so that there is no delay in the commencement of service hereunder and no break in service

attributable to regulatory action.

6. Delivery Point: (a) Unit's bus bar, if unit(s) is located in CAISO zone North of Path 15 as currently defined ("NP15"), or (b) an agreed-upon bus bar in NP15 if unit(s) located outside the CAISO NP15 zone and Seller has firm transmission rights to the specified bus bar for the full term of this agreement, or (c) any other point subject to Buyer's agreement.
7. Term: From the date of the execution of the Agreement to the earlier of (a) the Business Day following the day that the long-term unsecured senior debt of PG &E is rated BBB- or better by S&P and Baa3 or better by Moody's, or such earlier date as all conditions precedent to PG&E's performance under the PG&E Agreement have been satisfied or waived, and (b) 12:01 A.M. on January 1, 2004.
8. Capacity Price: Buyer shall pay Seller a capacity payment of \$250/kw-year, allocated in accordance with the monthly Capacity Payment Schedule attached hereto as Attachment B. The capacity payment shall be calculated based on the Maximum Capacity specified in section 5.a.
9. Energy Price: Energy shall be measured in MWh at the CAISO revenue meter for the Unit(s) to determine the amount of energy delivered at the Delivery Point, which amount shall then be multiplied by the applicable generation meter multiplier (or any successor method to account for losses established by the CAISO) for each Unit, to determine the amount of energy delivered at the Delivery Point. Buyer shall pay for only the net amount delivered after station use needs are subtracted. Buyer will pay Seller for each MWh delivered by Seller from the Unit and received by Buyer at a rate equal to \$17.12/MWh.
10. [INTENTIONALLY OMITTED].
11. Electric Dispatch: Seller shall be the scheduling coordinator for the Unit(s).
12. Schedule of Deliveries: Seller shall provide Buyer with a copy of its annual outage plan, and any quarterly updates thereto that Seller provides to the CAISO for the Unit(s) to comply with the CAISO tariff and/or outage coordination plan. Seller will also provide Buyer each Thursday a preschedule of planned energy deliveries hereunder for the following week (similar to those provided for its existing standard offer facilities). Such preschedule will include any anticipated outage(s) for the Unit(s). Seller will also timely notify Buyer of any CAISO approved outage request for the Unit(s). Buyer and Seller shall timely modify schedules with the CAISO in the event of an outage or curtailment.
13. Transmission: The risk of transmission outages is allocated to each of the parties as follows: Seller is responsible for electric transmission to the Delivery Point and bears all risks and costs associated therewith. Buyer is responsible for electric transmission from the Delivery Point and bears all risks and costs associated therewith. The failure of electric transmission service shall not be an excuse from performance hereunder.
14. Remedies:
 - a. If in any month Seller fails to provide the electrical services from the Unit(s) as

dispatched by Buyer and such failure to deliver is not excused hereunder, then (i) no energy payment shall be due for the energy not actually delivered from the Unit(s), and (ii) the capacity payment for that month shall be reduced pro rata according to the total megawatt hours not provided from the Unit(s) as a ratio of the total megawatt hours dispatched by Buyer for that month, taking into consideration the outage allowances provided for in sections 5.e, 5.f, and 5.g, and (iii) if Seller and Buyer agree that Buyer shall become the scheduling coordinator with respect to the Transaction described in this Confirmation, Seller shall reimburse Buyer, by set-off against payments due hereunder (but not under any other contract between the Parties) if Buyer so elects, for any energy imbalance costs and penalties incurred by Buyer for any hour during which Seller fails to deliver the full amount of energy scheduled by Buyer, excluding only hours during which the Unit(s) is unavailable because of an allowable outage, an emergency dispatch by the CAISO, or a Force Majeure condition; provided that, (A) the burden is the Seller's to demonstrate that one of these excuses applies to any particular instance of nonperformance by the Unit(s) and (B) the energy provided to the CAISO by the Unit(s) shall be deemed delivered hereunder, and (C) any revenue received by Seller from the CAISO for such dispatch shall be remitted to Buyer. If Seller is scheduling coordinator and the Unit(s) is unavailable due to any circumstance described in the definition of Product hereunder, Buyer will pay the Energy Price hereunder for energy scheduled up to a maximum duration of three (3) hours for the period beginning when such Unit(s) becomes unavailable until a new schedule has been submitted to and implemented by the CAISO.

- b. If Buyer fails to pay the undisputed amount of any invoice that is complete, properly formatted, and delivered to the correct address within the prescribed period, Seller may, without penalty, (i) suspend the provision of services under this Confirmation and (ii) the capacity payments under section 7 shall continue to accrue during the suspension period, and (iii) make sales to third parties from the Unit(s) until such payment, including applicable accrued interest, is received by Seller. Upon receipt by Seller of Buyer's payment, Buyer's rights hereunder shall be fully restored.
- c. The Parties confirm that in addition to the remedies set forth herein Article 4 of the Master Agreement also applies to the failure by either Party to schedule, deliver or receive, as applicable, the Product under circumstances described therein. Late payment of undisputed amounts by Buyer and the failure by either Party to make required payments hereunder shall not constitute an Event of Default provided that payment is received no more than sixty (60) calendar days after an invoice for the underlying charges has been delivered to the Party required to make such payment. The Parties agree that an outage or curtailment for scheduled or unscheduled maintenance will not be considered a failure to schedule or deliver for purposes of Article 4 of the Master Agreement but may be subject to section 14.a.
- d. The Unit(s) have not been designated as a Reliability Must Run resource by the

CAISO for calendar year 2003.

- e. For purposes of the Master Agreement, including Article 4 thereof, the “Contract Price” for any hour shall be the energy price hereunder plus the pro rata portion of the Capacity Payment for the month in question, based on the Capacity Payment schedule attached hereto as Attachment B, prorated over the total number of hours in such month.

15. Non-performance:

- a. In the event that the Unit(s) specified in Section 3 of this Confirmation is not commercially operable and delivering to Buyer on or before December 31, 2003 as a result of the Unit(s) not being commercially operational or Seller’s inability to deliver the energy provided for in this Confirmation, , Buyer may at its sole discretion terminate this Confirmation and Seller shall pay Buyer damages in the form of \$15,000.00 (fifteen thousand dollars) times the MW specified under this Confirmation; provided, however, that the foregoing termination right shall terminate and be of no further force and effect as soon as Seller begins deliveries of energy to Buyer hereunder. Seller and Buyer agree that such damages are a reasonable approximation of the damages that Buyer will incur and shall be construed as liquidated damages and not as a penalty. Such liquidated damages shall apply solely to a termination of this agreement by Buyer for the reasons stated in this Section 15.
- b. Within thirty (30) days of acceptance of this Confirmation by Buyer, Seller shall provide to Buyer, as security for the payment of liquidated damages in accordance with paragraph 15.a above, (i) a letter of credit or surety bond issued for the benefit of Buyer, either in the form attached to PG&E’s Request For Offers or in a substantially similar form, but issued for the benefit of both Buyer and PG&E, and drawable only by the beneficiary that is then purchasing the Product from Seller hereunder or under the PG&E Agreement, as applicable, or (ii) other security acceptable to Buyer. Within five (5) Business Days after the termination of Buyer’s right to terminate this Confirmation pursuant to Section 15.a, Buyer shall return such letter of credit or surety bond to Seller.

This confirmation letter is being provided pursuant to and in accordance with the Master Agreement and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

DEPARTMENT OF WATER RESOURCES
separate and apart from its powers and
responsibilities with respect to the State Water
Resources Development System

CALPINE ENERGY SERVICES, L.P.

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: December __, 2002

Date: December 23, 2002

Attachment A
Environmental Attributes

“Environmental Attributes” means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, attributable from the facility. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such (subject to the foregoing) sulfur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO₂), methane (CH₄) and other greenhouse gases (GHGs) that have been determined by the United Nations Intergovernmental Panel on Climate Change to contribute to the actual or potential threat of altering the Earth’s climate by trapping heat in the atmosphere; and (3) the reporting rights such as Green Tag Reporting Rights to these avoided emissions. Green Tag Reporting Rights are the right of a Green Tag Purchaser to report the ownership of accumulated Green Tags in compliance with Federal or state law, if applicable, and to a Federal or state agency or any other party at the Green Tag Purchaser’s discretion, and include without limitation those accruing under Section 1605(b) of The Energy Policy Act of 1992 and any present or future federal, state, or local law, regulation or bill, and international or foreign emissions trading program. Green Tags are accumulated on kWh basis and one Green Tag represents the Environmental Attributes associated with one (1) MWh of energy. Environmental Attributes do not include any energy, capacity, reliability or other power attributes from the project nor production tax credits or certain other financial incentives existing now or in the future associated with the construction or operation of the energy projects.”

Attachment B
Capacity Payment Schedule

January.....	10.0%
February.....	2.8%
March.....	2.8%
April.....	2.8%
May.....	2.8%
June.....	12.0%
July	15.0%
August.....	15.0%
September	12.0%
October	12.0%
November	2.8%
December.....	10.0%